

Green Banking- A Study of Select Banks in India

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Abstract: Green banking is any form of banking that benefits the environment. The biggest problem being faced by the whole world is environment management and reducing the damage to the natural resources and global warming. Thus, it is the responsibility of every individual as well as institutions in the world to contribute for green economy and adds to sustainable development of the economy. The present study is an attempt to understand and appreciate the role of banks in sustainable economic development through Green Banking. It also includes the role played by Indian Government to spur sustainability and attempts made by the selected Public and Private sector banks in India. The methodology used is based on secondary data collected from various Bank websites, RBI reports, Journals, etc. The findings of the study are that the banks have taken on the green initiatives in a big way. Banks have gone beyond just paperless banking to solar energy sources for ATM's and many more.

Keywords: Green Banking, Natural Resources.

1. INTRODUCTION

In response to the current discourse of development Sustainable development has emerged as a new paradigm of development that over-exploits natural environment for economic prosperity. The sustainable development can best be achieved by allowing markets to work within an appropriate framework of cost efficient regulations and economic instruments. One of the major economic agents influencing overall industrial activity and economic growth is the financial institutions such as banking sector. Banking sector is one of the major sources of financing investment for commercial projects which is one of the most important economic activities for economic growth. Therefore, banking sector plays a crucial role in promoting sustainable development and green economy. Banking sector is generally considered as environmental friendly in terms of emissions and pollutions. Therefore, the banking sector can play an intermediary role between economic development and environmental protection, for promoting environmentally sustainable and socially responsible investment. 'Green banking' refers to the banking business conducted in such areas and in such a manner that helps the overall reduction of external carbon emission and internal carbon footprint. The main motive of Green Banking is to protect and preserve environment. Although the banking and financial institutions are not directly affected by the environmental degradation, there are indirect costs to banks. Due to strict environmental disciplines imposed by the competent authorities across the countries, the industries would have to follow certain standards to run their business. In the case of failure, it would lead to closure of the industry's leading to a likelihood of default to the bank.

The importance of Green Banking in India is increasing rapidly as it is moving on the path of economic development and industrial sector is playing an important role in that. However, Indian industry faces the challenges of controlling environmental impact of their business i.e. reducing pollution and emission of their clients. Though government has been trying to address the issue by framing environmental legislations and encouraging industry to follow environmental technologies and practices, they would not be enough given the poor track records of enforcement, public awareness and inability to derive competitive advantage by producing eco-friendly products. As Banking sector is one of the major source of financing to the industries thus the banking operation and investment by financial institutions should take care of environmental management of these polluting industries by improving the overall environment, the quality and conservation of life, level of efficiency in using materials and energy, quality of services and products.

2. RELEVANCE OF GREEN BANKING

Enterprises are now increasingly interested in establishing and implementing strategies that will help them to address environmental issues and also pursue new opportunities. The reasons for going green are manifold, and the key among them are: increasing energy consumption and energy prices, growing consumer interest in environmentally-friendly goods and services, higher expectations by the public on enterprises' environmental responsibilities and emerging stricter regulatory and compliance requirements. Banks affect the environment indirectly by financing intermediaries who are the major source of long term funding to various industries that pollute the environment heavily. Banks are contributing directly towards the carbon emission in their day-to-day operations in terms of use of paper, electricity, lighting, air conditioning, electronic equipment and other things. Thus it is imperative to study the need for sustainable practices for banking.

3. REVIEW OF LITERATURE

Sahoo & Nayak (2008) explored the importance of Green Banking, cited international experiences and highlighted the important lessons for sustainable banking and development in India. The study found that there has not been much initiative in this regard by the banks and other financial institutions in India though they play an active role in India's emerging economy. The study also suggested the possible policy measures and initiative to promote green banking in India.

Jha & Bhome (2013) found the ways to Go Green through 'Green Banking'. The research methodology used in this study is based on primary as well as secondary data. The primary data was collected from the study conducted through telephonic interactions and personal interviews. The study examines major aspects concerned with the Green Banking. Specially structured questionnaires and interviews with employees, of well established banks and general public have been used for survey purpose. The analysis was done by using percentage technique. The study found that Green banking is a good way to get more awareness about global warming; each businessman will contribute a lot to the environment. The concept of "Green Banking" will be mutually beneficial to the banks, industries and the economy. It will not only ensure the greening of the industries but it will also facilitate in improving the asset quality of the banks in future.

Bahl (2012) highlighted the means to create awareness in internal as well as sub system among target groups and import education to attain Sustainable development through Green banking and also enumerated the effective methods for Green banking and also analyzed the strategies that helped in promoting Green banking. The data was based upon primary and secondary data. The study revealed that the weekly green news on preferred choice as effective mean followed to create awareness among managers and personnel as internal subsystem to attain sustainable development through green banking. The study also depicted that event meetings, media and websites had been rated as the most effective means of creating awareness as external subsystem among clients, subsidiaries and general public to attain sustainable development through green banking.

Sahitya et al. (2014) attempted to understand and appreciate the importance of green initiatives for the attainment of goals of sustainable banking and determine the various attempts that had been made by the top public and private sector banks in India. The methodology consisted of a case study based approach of secondary sources. The findings were that the banks had taken on the green initiatives. The Private Banks are as much involved in the green banking approach as the Public Sector Banks. All the banks are making efforts to make banking paperless. This had been fully supported by technology in terms of electronic fund transfers, ATMs, internet and mobile banking. Banks are in search of alternative energy sources for running facilities like ATM's etc.

Rajesh & Dileep (2014) studied the role of banks in sustainable economic development through Green Banking activities. The study was based on secondary data obtained from the reports of various Banks, various seminars and workshop information and other relative information published on the banks and other internet sites. The study concluded that Banks also contribute to ecological footprint directly and indirectly through investment/lending in their customer enterprises. Green banking can be an avenue to reduce pollution and save the environment aiding sustainable economic growth. Before making the decision to finance a project, banks must see its environmental risks and ensure the project players have environmental safety measures in their plans, including recycling facilities or smoke and gas arresting units.

Biswas (2011) highlighted the major benefits, confronting challenges, strategic aspects of Green Banking. It had also presented the status of Indian banks as far as Green Banking adoption is concerned. The study found that there had not

been much initiative in this regard by the banks in India, though they play an active role in India's emerging economy. Banks should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems. They must be more vocal about the inherent green value proposition.

Rajput et al. (2013) analyzed how Indian banks were responding to environmental turbulence and to provide an overview of their action in view of green banking adoption, awareness, drivers, challenges and gaps etc. the research methodology was based upon structured questionnaire supported by secondary data and reports published. Reliability of the questionnaire is tested using Cronbach's Alpha. The One-Sample T Test was performed on the to compare the mean score of a sample and KMO and Bartlett's Test Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was used which is a measure of sampling adequacy. The results revealed that there was a small group of banks in India that were leading the sector in tackling climate change, mapping of carbon footprints internally and externally. Internationally, there were several initiatives underway but the response of Indian banks was tardy and sluggish especially in internationally consistent disclosures and environmental protocols, which not only can spur innovation but also helped in pinpointing risk and also generate opportunity.

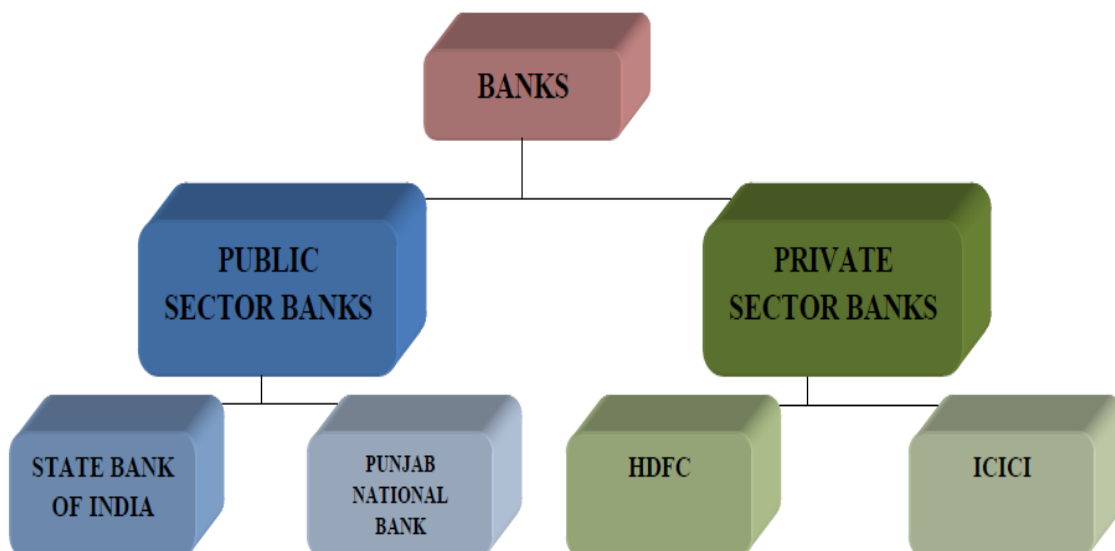
After reviewing the studies done in India and abroad, it is very evident that many banks are putting their best endeavours to achieve sustainable development by initiating green practices. The response to this environmental turbulence is tardy. This study is a modest attempt to identify the various initiatives undertaken by banks and provides some suggestions to initiate Green banking practices in India.

4. OBJECTIVES OF THE STUDY

- To study the importance and concept of 'Green Banking'.
- To identify the various initiatives taken by the select banks in India.
- To identify Green Banking strategies.
- To suggest the measures to be adopted by the select banks to ensure Green Banking.

5. RESEARCH METHODOLOGY

The study relies on secondary data which has been collected through research journals, magazines, reports, and websites of the respective banks and other related websites. The banks undertaken for the study were SBI bank, PNB bank, HDFC bank and ICICI bank. These banks were taken as these banks are the highest profitable banks as revealed by the RBI in "Report on Trend and Progress of Banking in India" as on 2009-10.



6. GREEN BANKING STRATEGIES

- ❖ Engage with the key stakeholders and create awareness of environmental issues and their impact on the economy, the environment, and the society. Also, explain to them the business and environmental value and the necessity of greening the bank processes, products, and services.
- ❖ Conduct energy audits and review equipments purchases and disposal policies and practices. Assess IT's environmental and cost impact and identify areas to be “greened”
- ❖ Set SMART (Specific, Measurable, Attainable, Realistic, and Timely) green goals as the internal targets to reduce your carbon footprint along with timelines. Develop criteria for measuring progress towards the goals.
- ❖ Develop and implement a green policy that aims to achieve higher utilization of systems while reducing energy use and lessening their environmental impact.
- ❖ Encourage, motivate, and energize the workforce to follow the green path and to come up with and implement their own ideas. In addition, also encourage clients, suppliers, and outsourcers to adopt green practices.
- ❖ Monitor the progress regularly; watch industry trends and new developments. Revise the green policy as required.
- ❖ Publicize your environmental policy, actions, and achievements and thereby get credits and accolades from customers, peers, industry groups, environmental advocates, government agencies, and society at large.

7. THE GREEN INITIATIVES BY THE SELECT BANKS

State Bank of India (SBI):

Founded in 1955, SBI is currently the largest banking and financial services company in India by means of market capitalisation, revenue and assets. Headquartered in Mumbai, the bank has 14,816 branches (66% of which are located in Rural and Semi-urban areas), 32,752 ATMs and 2,28,296 employees. As of June 2013, the bank had 180 overseas offices spread over 34 countries with its presence across major financial centres like Frankfurt, London, Hong Kong, New York, Sydney and Tokyo. Apart from its core banking operations SBI deals in a wide range of services including insurance, mutual funds, factoring, investment advisory and asset management. With respect to financials, the bank registered an annual increase of 15.24% in Deposits, 20.7% in Loans & Advances (in INR terms), 16.8% in standalone Net Profit and 3.6% in domestic Net Interest Margin (NIM) for FY 2012-13. The publicly issued equity shares of the bank are listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). Its Global Depository Receipts (GDRs) are listed on London Stock Exchange (LSE).

Green Banking Initiatives by State Bank of India:

- On the occasion of State Bank Day, the bank had launched 'Green Channel Counter' (GCC) facility on 1st July 2010 at 57 select branches spread across the country and the same was expanded to more than 5000 branches in 2011. This is a pioneering concept which is eco-friendly as it avoids use of paper and convenient as it saves time and employee effort.
- SBI became the first bank in the country to venture into generation of green power by installing windmills for captive use in 2010. As part of its green banking initiative, SBI installed 10 windmills with an aggregate capacity of 15 MW in the states of Tamil Nadu, Maharashtra and Gujarat.
- The bank has been encouraging customers by extending project loans on concessionary interest rates to reduce greenhouse gas (GHG) emissions by adopting efficient manufacturing practices through acquisition of latest technology. SBI offers an interest discount of 10 basis points on all such environment friendly projects.
- The bank arranges consultancy services by roping in the services of empanelled consultants in CDM (Clean Development Mechanism) registration process. SBI has also launched a loan product to facilitate upfront finance to project developers by way of securitisation of carbon emission reduction (CER) receivables.
- SBI initiated the carbon disclosure projected in the financial sector in India, for the sake of environmental concern and safety by becoming a signatory to the Carbon Disclosure Project of World Wide Fund (WWF).

Punjab National Bank (PNB):

Punjab National Bank is India's second largest public sector financial services company by means of net sales. Founded in 1895, the bank has over 5,800 branches and over 6,000 ATMs across 764 cities. It serves over 80 million customers. The bank has been ranked 248th biggest bank in the world by the Bankers' Almanac. The bank has expanded its footprint into 10 countries. The bank also has 5 overseas branches in Hong Kong, Dubai & Afghanistan and an Offshore Banking Unit (OBU) Branch in SEEPZ, Mumbai. The bank has three subsidiaries viz. PNB International Ltd. (UK), Druk PNB Bank Ltd, Bhutan and JSC SB PNB Kazakhstan. It offers a wide variety of financial services for its varied classes of customer base like retail banking, corporate banking, equity and foreign exchange trading, asset-backed financing, wealth management, insurance etc.

Green Banking Initiatives by Punjab National Bank:

- The bank introduced Green Banking by completing transformation into Core Banking Solutions (CBS) Banking.
- Bank has started using energy efficient appliances & conducting the electricity auditing of their offices. On the other side the bank is also accenting on green infrastructure. A separate green audit sheet is being employed by the bank to access the impact of various green banking initiatives implemented in the bank.
- The bank has conjointly placed guideline for supply of term loan to business units and commercial projects that are producing renewable energy and special guidelines have been issued to curb the units that use environmental depleting substances.
- In the year 2010-11 the bank sanctioned nine commercial projects of wind energy comes with total sum of INR 1850.81 million to push and develop the renewable supply of energy.
- The bank introduced e-solutions by paperless dealings in complaint & vigilance procedures by a speedier communication system through e-network which drastically cuts down cost & time.
- The bank has introduced "Green practices" to conserve resources "Green audit" of all our functional units to sensitize the staff towards sustainable practices. Efforts for rainwater harvesting in existing buildings and new constructions are being made along with promotion of wind and solar energy usage in rural areas.

Initiatives of Private Sector Banks in India:

HDFC Bank is the largest bank in India as per Market Capitalization. It was incorporated in August 1994 and currently has a nationwide network of more than 3,251 Branches and 11,177 ATM's in 2,022 Indian towns and cities. It was among the first companies to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector. The Bank started operations as a scheduled commercial bank in January 1995 under the RBI's liberalization policies.

HDFC Bank is one of the most active banks in India in the field of Green Disclosures. The banks has been measuring its carbon footprint since 2010 and has been disclosing the same to the Carbon Disclosure Project (CDP), which is an organization based in the United Kingdom that works with shareholders and corporations to disclose the greenhouse gas emissions of major corporations.

Green Banking Initiatives by HDFC Bank:

Initiatives taken by the HDFC bank:-

- Reducing the Use of Paper by issuing electronic transaction advices for corporate customers and encouraging retail customers to convert to e-statements instead of physical print outs
- Conserving energy replacing conventional lighting options with Compact Fluorescent Lamps (CFLs), switching off signage lights past 11:00 pm at branches and setting up Green Data Centers with state-of-the-art technologies.
- Renewable Energy initiatives like Project of 20 Solar ATMs with the pilot ATM set up in Bihar.

ICICI Bank:

ICICI Bank is India's largest private sector bank in terms of total assets. The total assets of the bank are worth Rs. 5,367.95 billion (US\$ 99 billion) at March 31, 2013 and profit after tax Rs. 83.25 billion (US\$ 1,533 million) for the year

ended March 31, 2013. The Bank has a network of 3,611 branches and 11,162 ATMs in India, and has a presence in 19 countries, including India.

Green Banking Initiatives by ICICI Bank:

- As an initiative towards more environment friendly way of life, ICICI Bank offers 50% waiver on Auto Loans' processing fee on car models which use alternate mode of energy. The models identified for the purpose are, Maruti's LPG version of Maruti 800, Omni and Versa, Hyundai's Santro Eco, Civic Hybrid of Honda, Reva electric cars, Tata Indica CNG and Mahindra Logan CNG versions.
- ICICI Home Finance offers reduced processing fees to customers who purchase homes in Leadership in Energy and Environmental Design (LEED) certified buildings.
- ICICI Bank also works with various institutions to help them find alternative cleaner solutions for their general operations. For instance, in coal technologies, ICICI Bank introduced innovative concepts like deep beneficiation of coal (coal washeries) and coal bed methane. It also assisted a company develop a product that provides an ecofriendly air-conditioning alternative to conventional air conditioners (ACs).
- ICICI Bank has extensively capitalized on the existing internal media- statements, inserts, and Credit Card Charge slips- to reach out to the customers and seek their collaboration in the Go Green movement. ICICI Bank also initiated a programme to sensitise corporate bodies, institutions, banks and government agencies involved in project planning on issues like biodiversity, wildlife habitats and environmental laws.

RBI guidelines regarding Green Banking:

The Institute of Development and Research and in Banking Technology (IDRBT) established by Reserve Bank of India (RBI) has proposed the introduction of standard rating for green efficient banks and banking practices among Indian Banks. Under this rating system, both the infrastructure and operations of the banks are being considered. IDRBT has coined the term of Green Rating Standard as "Green Coin Rating". Banks' primary business must not be money making only, but it should also keep in mind social and environmental issues relating to its operations. Green Coin Rating will be in line as energy star rating given for appliances. Banks will be judged based on the rate of carbon emission out of their operations, the amount of reuse, refurbish and recycling concept being used in their building furnishings and in the systems used by them such as computers, servers, networks, printers, etc. They will also be evaluated on the number of green projects being financed by them and the amount of rewards and recognition they are paying for turning businesses green.



Source: Institute of Development and Research in Banking Technology, 2013

8. SUGGESTIONS

- Banks must adopt a strategic plan to perform green activities on long term basis as well as short term basis.
- Government should outline a broad guideline of green banking for environmental protection, conservation of biodiversity.
- Reserve Bank of India should shape up a concrete guideline for green banking practices.
- Banks can conserve energy and natural resources by paying bills online, remote deposit, online fund transfers, and online statements. Online banking can create savings from less paper, less energy, and less expenditure of natural resources from banking activities.
- India is an energy deficit country the bank can install solar panels in all branches as an alternative energy source. They can also use the vehicles which consume less fuel which will save huge fuel import of the country. They can also use big vehicles to carry the employees of the banks instead of personal vehicle to reduce fuel as well traffic jam in the roads.
- The main contribution by Banks is in financing the Green Projects i.e. Bankers must be aware of the environmental issues and they must go for financing the projects that do not pollute the environment.
- The initiative to be taken by the Banks in spreading the awareness among the clients about Green banking by organizing seminar and symposium. They can organize awareness campaign in schools and colleges. They can participate in the tree plantation and cleanliness programmes in city areas.
- Consumers should be aware that banks offer green checking account because ultimately it helps their profits and not for purely altruistic reasons. They can profit customers as well because many reward checking accounts will pay a high interest rate to bank customers who meet certain monthly requirements.
- Banks should use Green Loans for Home Improvements in a way that before a customer undertake a major home improvement project, study if the project can be done in an eco-friendly manner and if the customer might qualify for a green loan from a bank. Green loans are perfect for energy-saving projects around the house. Find a better loan rate and save energy costs all at the same time.

9. CONCLUSION

Green banks are at start up mode in India. They should expand the use of environmental information in their business operations, credit extension and investment decisions. This will help in improving their environmental performance and creating long term values for their business. The adoption of Green Banking will not only enhances the image of the bank but also protects the environment and makes the overall growth sustainable. Green banking can be an avenue to reduce pollution and save the environment. In a rapidly changing market economy where globalization of markets has intensified the competition, banks should play a pro-active role to take environmental and ecological aspects as part of their lending principle which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems. The banking and financial sector should be made to work for sustainable development. As far as green banking is concerned, India's banks are running behind time and there is need to motivate the banks so that they can promote Green Banking for the sustainable growth of the nation. Sustainability reporting is also one area which is facing paucity in Indian banking sector, more formal frameworks and clear policies are required for reporting in a sustainable way. There is a big problem amongst the bankers that many people are not well trained and equipped with the modern automated system as a result of which the results are not as we are looking for. Hence training and development of relevant skills within bank employees are important to speed up the reforms. RBI has to play more proactive role by passing the mandates, rules, regulations to tackle this critical issue of climate change.

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